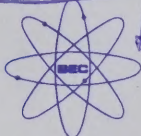


**BONN
ENERGY
CORPORATION
1979 ANNUAL REPORT
FOR THE YEAR ENDED MAY 31, 1979**

CORPORATE INFORMATION

BONN ENERGY CORPORATION
226 - 20th ST. E., SASKATOON, SASK. S7K 0A6



DOUGLAS J. AMY
PRESIDENT

BUS. PHONE (306) 665-7505
RES. PHONE (306) 382-4701

DIRECTORS

William R. MacNeill, Chairman
Saskatoon, Saskatchewan
Douglas J. Amy
Saskatoon, Saskatchewan
Douglas W. Hilland
Calgary, Alberta
Robert W. Termuende
Fort Steele, B.C.
Terrance L. Falkenberg
Calgary, Alberta

OFFICERS

Douglas J. Amy
President
Douglas W. Hilland
Secretary
N. Ralph Newson
Vice-President, Exploration

HEAD OFFICE

226 - 20th Street East,
Saskatoon, Saskatchewan.
S7K 0A6

BANKS

Canadian Imperial Bank of Commerce

TRANSFER AGENT AND REGISTRAR

Canada Trust Company

LEGAL COUNSEL

McLaws & Company

AUDITORS

Winspear Higgins Stevenson & Company

STOCK LISTING

Alberta Stock Exchange

REPORT TO SHAREHOLDERS

I am pleased to submit Bonn Energy's first annual report for the year ending May 31, 1979. As the Company went public on March 15, 1979, active operations within the Company itself represent only a short period of 2 1/2 months prior to year end. Because this limited time leaves little to comment on, I will deal primarily with your directors' philosophies, and plans to develop the Company.

We will continue actively to acquire uranium and base metal prospects throughout the world, concentrating primarily in western Canada and Australia in the immediate future. In most cases these properties will be joint ventured with other companies, with Bonn Energy maintaining a form of carried or working interest. This will allow Bonn Energy to maintain the broadest possible exposure in the mining industry at the very least financial risk. A few select properties will be maintained and operated by Bonn itself.

We feel the company's most urgent need is the development of a cash flow. It is our intention to seek opportunities within the minerals and oil and gas industries to satisfy this need. Management has looked at several opportunities both in and out of Canada over the past few months.

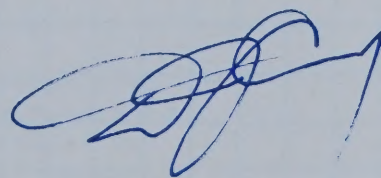
On September 25, 1979, Bonn purchased a 640-acre oil lease in the Frobisher-Alida area of Saskatchewan. Forecasts estimate approximately 190,000 barrels per well on 80-acre spacing. We hope to arrange development of this property in the forthcoming year.

In Montana, we have a 12 1/2% interest in a 61,000-acre tract presently being drilled for shallow gas. The program is being operated by Red River Oil & Gas Inc., and our interest was purchased from Sastex Petroleum Ltd. Final results on this program will be available early in the forthcoming year.

We are jointly, with another company, embarking on a development program to bring certain proven oil reserves into production in Saskatchewan through secondary recovery methods. Financing of \$2,300,000 for this project is currently being arranged on one section of land, with the idea of developing further properties in this area as our cash flow builds.

We will continue to seek opportunities in the oil and gas areas to expand within the limits of our reserves and capital resources and to take advantage of the growing demand for oil and natural gas.

Respectfully submitted on behalf of the Board of Directors.



Douglas J. Amy,
President

Because several high grade deposits of uranium in economic quantities have been found in northern Saskatchewan during the last five years, the intensity of exploration is at an all time high, and the outlook for continued escalation in this search is positive. It can be predicted with a reasonably high degree of confidence that new deposits will be found in Saskatchewan, and that the relative importance of Saskatchewan in relation to Canada and the rest of the world will increase in the next decade. At present, some 150 companies are exploring for uranium in Saskatchewan, any one of which could make a major discovery. An indication of what such a discovery could mean to a company is provided by the recent deal under which Eldorado Nuclear and the Saskatchewan Mining and Development Corporation has agreed to purchase Inexco's interests in the Key Lake discovery (51,000 ST grading 50 lbs. U_3O_8 per ton). This arrangement appears to value the uranium in the ground at a minimum of \$3.50 per lb., and possibly as much as \$5.00 per lb. Bonn Energy has interests (varying from .5% net profits carried interest to 100% working interest) in more than 4 million acres in this area. In the following paragraphs we briefly mention programs carried out on properties operated by Bonn Energy.

DIABASE PENINSULA PROPERTY

During the present field season a prospecting program and a geophysical survey were carried out on the property. A number of uranium showings were found on the surface at the contact of the diabase dykes and the Athabasca sandstone, yielding uranium values up to .8 lbs. U_3O_8 .

The electromagnetic survey carried out by Bonn Energy, outlined a strong conductor crossing the property in a northeasterly direction, and intersecting the dyke in the area where the showings were found.

Saskatchewan Mining and Development Corporation have elected a 50% interest in this property and we are presently negotiating with them a sale of our 50% interest subject to a royalty payable to our company.

KOOP LAKE PROPERTY

Work completed on the Koop Lake property consists of prospecting, geophysical surveys, and diamond drilling. At the time of writing this report, we have not received the results of the airborne geophysical and the geochemical surveys.

The purpose of the prospecting was to locate uranium mineralized outcrops, or mineralized boulders which act as locators of hidden mineralization. A number of boulders of basement rock carrying low values of uranium and some boulders of pebbly Athabasca with values above background were found.

An airborne Input survey has been flown over the entire property with the object of locating conductors for follow-up on the part of the property outside the area covered by the ground survey.

The ground magnetic and electromagnetic survey was carried out in the northwest part of the property to locate conductors believed to exist on the ground. A number of conductors were detected and traced. We intend to embark on a drill program in the near future to further investigate these conductors.

A diamond drill hole was put down on the extreme northern end of the property. The base of the Athabasca was found at 221 metres, and extensive alteration of the basement rocks over 55 metres, from 221 metres to the bottom of the hole at 276 metres, attests to the favorability of the basement rock for deposition of uranium. Kaolinite and sericite alterations were found at the unconformity, and chloritic alteration was found over the entire 55 metre altered section. Disseminated sulphides were found sporadically throughout the zone, and graphite was an important constituent for the last 20 metres of the hole.

FOSTER LAKE PROPERTY

A prospecting program was carried out over the eastern half of the property, and a geological examination was made of the area surrounding the known mineralized boulders. An airborne Input survey was done over the entire property, but the results of this have not been received at this time.

The geological examinations indicated that the mineralized boulders could have been derived locally, and that more work should be done on the area immediately around the boulders.

The prospectors found pitchblende in cross fractures near a prominent fault, and found mineralized boulders which could have been frost heaved.

The lateness of the season prevented follow-up of the discoveries, but it is planned to carry out a program of ground geophysics, stripping, trenching, and diamond drilling if warranted next season.

SLAVE RIVER, ALBERTA

The company, in a 50-50 joint venture with a Calgary based company, carried out uranium exploration programs on our property in northeastern Alberta. Geochemical surveys on this property have shown that anomalous values of uranium exist in areas that will be further evaluated in the next field season.

OTHER PROPERTIES

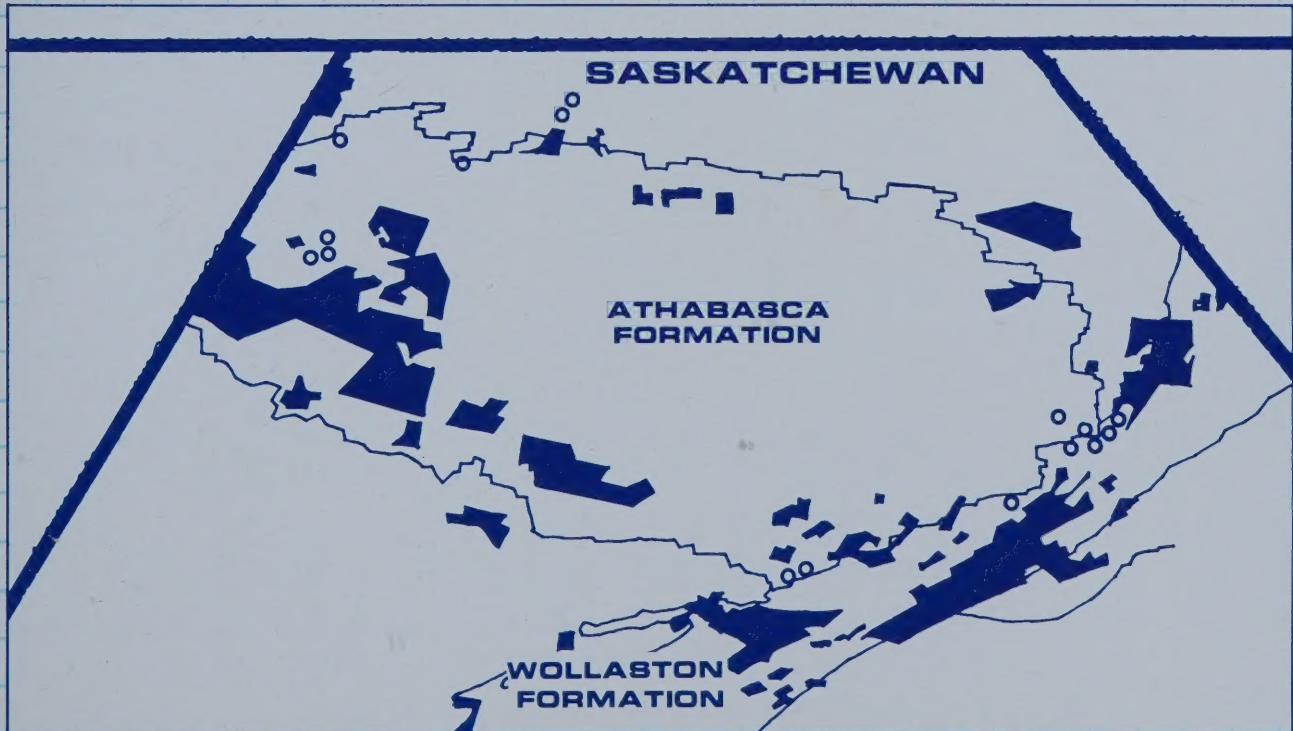
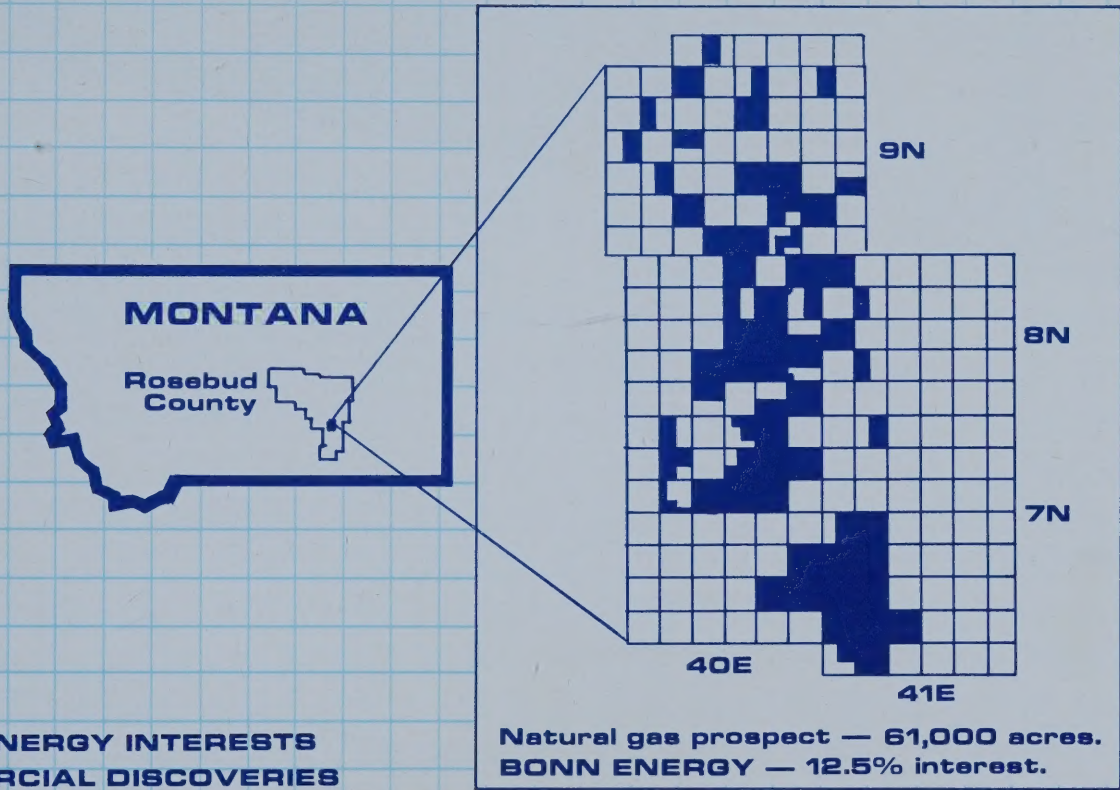
In addition to maintaining a high profile in the search for uranium, the company acquired 14,420 acres in the Waddy Lake area of Saskatchewan which includes the Green Hill gold showing. This area has several gold bearing zones, one of which assays up to 4.55 oz. of gold per ton across 5 feet. We are negotiating for further exploration on a joint venture basis on this property.

The Ferro gold property near Herb Lake, Manitoba, was acquired in August (50% Bonn). Previous reports indicate 100,000 tons of .53 oz. gold per ton. This property has never been mined although there is a headframe and mill at various stages of repair on location. We are presently assessing the economic viability of placing this property into production.

In Montana, we have a 12½% interest in a 61,000-acre tract presently being drilled for shallow gas. The program is being operated by Red River Oil & Gas Inc., and our interest was purchased from Sastex Petro-Minerals Ltd. Final results of this program will be available early in the

forthcoming year.

We look forward to reporting to you over the next few months the results of the exploration activities which will be continued in both the mining and oil and gas areas.



AUDITORS' REPORT

To the Shareholders of
Bonn Energy Corporation

We have examined the balance sheet of Bonn Energy Corporation as at May 31, 1979 and the statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at May 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Winnipeg Higgins & Luessen & Co.
Chartered Accountants

SASKATOON, Canada
August 22, 1979

BONN ENERGY CORPORATION
BALANCE SHEET MAY 31, 1979

ASSETS

Current	
Term deposits	\$ 847,508
Marketable securities, at lower of cost and market value (market value \$17,465)	17,465
Receivables	28,149
Deposit	<u>25,000</u>
	918,122
Mineral interests, at cost	287,953
Oil and gas properties, at cost (Note 2)	112,678
Equipment (Note 3)	12,202
Prospectus expenses (Note 4)	78,673
Incorporation expenses (Note 5)	<u>1,001</u>
	<u>\$1,410,629</u>

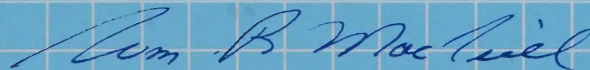
LIABILITIES

Current	
Bank indebtedness (Note 6)	\$ 101,583
Payables and accruals	
Trade	65,121
Due to affiliated company	<u>13,828</u>
	180,532
Deferred income taxes	<u>27,530</u>
	208,062
Committments (Note 10)	

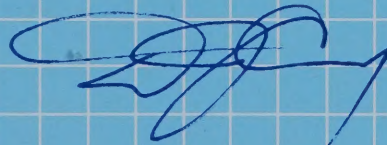
SHAREHOLDERS' EQUITY

Share capital	
Authorized	
An unlimited number of common shares without par value	
Issued and outstanding	
2,610,002 common shares (Note 7)	1,187,002
Retained earnings	<u>15,565</u>
	<u>1,202,567</u>
	<u>\$1,410,629</u>

ON BEHALF OF THE BOARD



W. R. MacNeill, Chairman



D. J. Amy, President

See accompanying notes

BONN ENERGY CORPORATION
STATEMENT OF INCOME AND
RETAINED EARNINGS FOR THE
PERIOD FROM MAY 29, 1978
[DATE OF INCORPORATION]
TO MAY 31, 1979

Sale of mineral properties	\$ 230,044
Cost of sales	<u>61,163</u>
Gross profit	<u>168,881</u>
Expenses	
Accounting and legal	7,855
Amortization	19,919
Consulting	8,957
Depreciation	4,112
Interest and bank charges	1,695
Licenses	431
Management fees	49,000
Mpas	4,313
Office	11,271
Promotion and travel	26,534
Telephone	9,268
	<u>143,355</u>
Operating income	<u>25,526</u>
Investment income	<u>17,569</u>
Income, before income taxes	<u>43,095</u>
Income taxes — deferred	<u>27,530</u>
Net income and retained earnings	\$ <u><u>15,565</u></u>
Basic earnings per share	<u><u>\$.01</u></u>
See accompanying notes	

BONN ENERGY CORPORATION
STATEMENT OF CHANGES IN
FINANCIAL POSITION FOR THE
PERIOD FROM MAY 29, 1978
[DATE OF INCORPORATION]
TO MAY 31, 1979

Financial resources were provided by	
Operations	
Net income	\$ 15,565
Items not affecting working capital	
Depreciation	4,112
Amortization of prospectus and incorporation expenses	19,919
Deferred taxes	27,530
	<u>67,126</u>
Proceeds from issuance of common shares	1,187,002
	<u>1,254,128</u>
Financial resources were used for	
Purchase of	
Equipment	16,314
Mineral interests	287,953
Oil and gas properties	112,678
Cost of	
Incorporation	1,251
Prospectus	98,342
	<u>516,538</u>
Working capital, end of year	\$ <u>737,590</u>
See accompanying notes	

BONN ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS
MAY 31, 1979

1. Accounting policies

(a) Mineral interests

The Corporation has mineral interests in various properties in Saskatchewan and Alberta. The cost of purchasing or staking and recording these claims constitutes the recorded value of these mineral rights. The Corporation has a fractional interest in certain other claims and any possible future revenues that may result. This fractional interest has been valued at the Corporation's proportionate cost of staking and recording these claims.

(b) Equipment

Depreciation is recorded on the diminishing balance method at the following rates:

Office equipment	20%
Automotive	30%

(c) Prospectus and incorporation expenses

Prospectus and incorporation expenses are amortized on a straight line basis over 5 years.

(d) Deferred income taxes

The Corporation records the estimated future tax liability that may arise as a result of timing differences between recording for accounting purposes and recording for income tax purposes.

(e) Earnings per share

Basic earnings per common share have been calculated using the weighted average number of common shares outstanding during the period. The calculation of earnings per common share on a fully diluted basis assumes the exercise of all stock options which would have a dilutive effect on earnings per common share. Fully diluted earnings per share have not been presented since it does not differ materially from basic earnings per share.

2. Oil and gas properties

The Corporation paid \$110,677 for a 12½% interest in an unexplored oil and gas property in Montana, U.S.A. The remaining \$2,000 represents an unexplored oil and gas property in Saskatchewan.

BONN ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS
MAY 31, 1979

3. Equipment, at cost

	Cost	Accumulated Depreciation	Net Book Value
Office equipment	\$ 7,826	\$ 1,565	\$ 6,261
Automotive	<u>8,488</u>	<u>2,547</u>	<u>5,941</u>
	<u>\$ 16,314</u>	<u>\$ 4,112</u>	<u>\$ 12,202</u>

4. Prospectus expenses

Costs	\$ 98,342
Accumulated amortization	<u>19,669</u>
	<u>\$ 78,673</u>

5. Incorporation expenses

Costs	\$ 1,251
Accumulated amortization	<u>250</u>
	<u>\$ 1,001</u>

6. Bank indebtedness

Bank overdraft	\$ 1,583
Bank loan	<u>100,000</u>
	<u>\$101,583</u>

The bank loan is secured by a \$100,000 term deposit.

7. Share capital

The Corporation was incorporated under the Canada Business Corporations Act on May 29, 1978. During the period the Corporation issued 1,860,002 shares for consideration of \$1,112,002 and 750,000 shares for interests in mineral rights valued at \$75,000.

BONN ENERGY CORPORATION
NOTES TO FINANCIAL STATEMENTS
MAY 31, 1979

8. Escrowed shares

Pursuant to two agreements dated February 2, 1979 between an affiliated company and The Canada Trust Company (the "Escrow Agent") 1,450,000 common shares, representing 55.56% of the issued and outstanding common shares of the Corporation will be held by the Escrow Agent. The escrow restrictions provide that the escrowed shares may not be dealt with in any manner whatsoever without the consent of the Registrar and the Director of the Saskatchewan and Alberta Securities Commissions respectively.

9. Share options

- (a) On September 27, 1978 the Chairman of the Board was granted options to purchase 200,000 common shares at a price of \$.75 per share. This option expires September 28, 1983.
- (b) The Corporation is currently negotiating with a third party to cancel certain rights of first refusal which the third party has relating to a number of carried interests. In consideration, the Corporation will grant to the third party or its nominee an option to purchase 100,000 common shares of the Corporation at a price of \$1.50 per share exercisable within a two year period from the date of cancellation. Granting of the option will be subject to required regulatory approvals.

10. Commitments

- (a) Assessment work of \$2.50 per acre must be done annually on claim blocks owned in unsurveyed areas or the claim blocks will lapse. This work is required commencing with the second year after staking of these claim blocks. This will require expenditures of \$120,855 in the next fiscal year and \$550,664 in each year following or until the Corporation disposes of these claim blocks.
- (b) During the year the Corporation issued 700,000 common shares pursuant to a prospectus dated February 26, 1979. The Corporation is committed to use the net proceeds for specific purposes.

